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THE RATES AND PRACTICES OF EXPRESS COMPANIES

The Hepburn act of 1906 placed the express companies under the provision of the interstate commerce law. With this the long continued efforts to bring the much censured express business under public regulation reached their final stage. And with this was provided for the first time an adequate means for a reasonably full illumination of one object of dissatisfaction in the American transportation system that has been darkened by an ultra-conservative attitude of express companies toward the public interest, by the resentment of shippers that is born of grievances unallayed, and by popular prejudice that springs from incomplete knowledge of essential facts.

Under the authority thus given to it, the Interstate Commerce Commission at once undertook the preparation of a uniform system of accounts for express companies on which their annual reports to the commission should be based. The earliest product of this activity was the *First Annual Report of the Interstate Commerce Commission on the Statistics of Express Companies*, for the year ended June 30, 1909. This report included, in addition to the reports of revenues and expenses, the results of an analysis of the traffic handled by express companies during the months of April, August, and December, 1909, considered as being jointly representative of the business of a whole year.

The knowledge of the express business thus given to the public was general in character, mainly informative in purpose, and without that check upon the exact accuracy of deductions drawn from it that criticisms by express men might give. However, in the meantime the commission was proceeding toward an exhaustive investigation to secure detailed information specifically bearing on alleged malpractices and alleged unreasonableness of rates and charges, and in which all parties in interest would have a full opportunity to present such facts and such interpretation thereof as they might consider significant for a fair understanding of the matters in dispute. In 1909, the California Commercial Association instituted an action against Wells Fargo and Company. This was followed by other actions against other companies in rapidly increasing numbers. In all, there have been thousands of complaints laid before the commission in forms varying from criticisms of the acts of local agents to formal presentments de-

manding revision of specific rates and practices. The commission found these complaints so numerous and so general that it merged its inquiries in the matter of each case before it into an investigation of the whole express business on a nation-wide scale. In June, 1911, each of the express companies was ordered to file with the commission answers to a number of detailed questions concerning its financial history, its present financial connections, and its present operations and practices. In addition, each company was summoned to appear at a hearing where the complainants might present their grievances and the companies make their answers. Further, the commission itself entered upon an exhaustive analysis of the annual reports from the companies and of the business done on one day each by the Adams Express Company and the United States Express Company.¹ The results of these analyses were presented for the consideration of the commission in nearly two hundred exhibits. In addition to this study of the business in the United States, the commission took careful note of the express service in the more important European countries, also, and assembled a great deal of information on the nature and method of the service and on the charges prevailing there.

Meanwhile, some hundred or more boards of trade and other commercial bodies throughout the country had formed the Express Rates Conference, an organization for the more effective and concerted presentation of their cases before the commission. This body prepared an enormous amount of testimony and statistical evidence in support of the complaints. All of this was introduced at the hearings appointed by the commission. The express companies, for their part, presented a large amount of statistical evidence and introduced a number of witnesses of long experience in administrative and operative positions in the business, including three men, natives of England, France, and Germany, respectively, who were actively engaged in handling express business in their own countries.

The hearings were begun in New York on November 22, 1911. After three days they were continued in Washington for about a week, and later for short periods in January, February, and

¹ Wednesday, August 18, 1909, was taken for the Adams Company. This was selected as representing the season when heavier shipments of perishable products are at their height. December 22, 1909, was taken for the United States Company. This was selected as representing the season when light pieces of general merchandise are at their greatest volume.

March, 1912. In all about fifteen days were given to taking testimony. The record in the case, with all the exhibits, reports, and other data collected in connection with the matter, would fill a room.

An inquiry of this comprehensive scope and thoroughness, participated in by all the varied parties in interest, yielded an enormous amount of information in respect to "the financial affairs of these companies; the character of their organizations; the relationships which they enjoy with the railroads; the extent and nature of the property which they own; the character of their service; the basis of their rate systems; the cost of their operations; the manner in which their rates are stated; the relation of the service which they give to that extended by the railroads in the carriage of freight by freight trains; the relationship between the rates established in different sections of the country for the same service by express; the similarities and dissimilarities obtaining as between the express service in the United States and similar service in foreign countries, together with a comparison of the rates in foreign countries with those extended in this country; and other questions analogous or related to these."²

The complaints against the express companies, brought out during this investigation, were summarized by the commission in the following classes:

- (1) Double collection of lawful charges.
- (2) Overcharges and undercharges effecting discrimination between shippers arising out of an obscure rate system and ineffective revision and supervision of accounts.
- (3) Indirect routing of shipments by the express carrier, resulting in unreasonable delays and defeating the reason for the existence of an express service as distinguished from an ordinary freight service.
- (4) Failure or refusal to deliver parcels to consignees located outside of arbitrarily established free delivery limits without notice being given, either to the consignor or consignee, as to the extent of free delivery territory.
- (5) Unreasonableness of the terms of shipment imposed by the receipt given by the carrier.
- (6) Delays in the settlement of claims for loss and damage.
- (7) Excessive insurance charges when shipments are valued at more than \$50.
- (8) A confusing set of rules governing the classification of express matter, which led to discrimination in rates between classes of shippers by providing obscure and insignificant conditions as to the basis for

²*Interstate Commerce Commission Reports*, 24, pp. 383-384.

classifications, of which the initiated may take advantage to procure transportation at lower rates than are generally applied to the more uninformed portion of the public.

(9) Delays in the return of C. O. D. collections to consignors.

(10) The obscure statement of rates making the public dependent almost entirely upon the information furnished them by the carriers.

(11) The unreasonableness of the rates charged by the carriers.³

As to the extent of the matters in complaint, the Interstate Commerce Commission said:

We have found the evils so fundamental that it has been deemed necessary not only to criticize and correct existing rules and rates, but to build from the very bottom by outlining a national system of stating rates, a rational classification of express rates, and to enter into the minutiae of the billing, routing, and other details.⁴

On June 8, 1912, the commission entered its opinion and order in the case. Its order was accepted by the companies with respect to nearly all the points in complaint, except those of rates and charges and those features of the classification of traffic that affect rates and charges. On these latter points, the commission devised a new basis for constructing rates and prepared a partial schedule which it embodied in a tentative order. It gave the companies until October 9, 1912, to examine these proposed rates and charges and show cause why the schedule should not be made permanent. The commission expected that the companies would complete the full schedule on the basis devised by it. But, on the day appointed, the companies said it had been impossible for them to do this and to check the effect of the proposed rates on their revenues. The commission then undertook to complete the schedule, which it finished in December. On December 10, 1912, an order was issued to the companies directing them to furnish a detailed statement of their revenues under present rates for some one or more days' business, and a statement of the revenues that would accrue on the same business under the charges proposed by the commission. The main response of the companies to this order was filed by February 10, 1913. An argument was had on April 1, in which the principal companies supplemented their main response with additional matter on a number of points. Counsel for the Express Rates Conference requested time to prepare a brief in answer to a number of the specific points in the companies' argument. The com-

³*Interstate Commerce Commission Reports*, 24, p. 388.

⁴*Ibid.*, p. 389.

mission granted until April 21 for this purpose. At the present writing the matter is pending the filing of this brief.

It would not be advisable to discuss the tentative rates of the commission until the objections urged by the companies and the reply by the shippers can both be considered with due care. But it will be quite possible to describe at this time the settlement that has been reached on those complaints that concern only the practices of the companies; to discuss the criticisms that have been urged against the present rates of the companies; and to state the general plan of the commission for dealing with express charges. A later article, after the case is closed, can with greater fairness, and more pointedness, discuss the particular issues concerning rates as they have shaped themselves around the specific rate structure proposed by the commission.

Objects of Complaint concerning Practices

The matters affecting rates and charges are far the most consequential and the most disputed of all those complained of. All the others either have been adjusted by the orders of the commission and the acceptance of the companies, or are well in the way of mutual adjustment.⁵ It will not be necessary, therefore, to give these latter complaints more than a rapid review to note their nature and the disposition made of them by the commission.

1. *Double collection of lawful charges.* The collection at destination of a second charge on shipments already prepaid was the natural result of the method of handling prepaid shipments. The practice of the companies was such as to result in a collection of the charges from the consignee whenever it did not clearly appear that they were prepaid, notwithstanding that any uncertainty as

⁵ These criticisms of the express service now in question were practically acknowledged by the companies themselves, who conceded the desirability of reform in all matters except rates. They have contended only that the operating necessities of the business have made it impossible for them on their own individual initiative, without concerted action by all together, to change their methods of conducting the business. There are many critics who have not been convinced by this explanation, and who still believe that the record shows that lack of interest and inertia of habit are the real explanations. Nevertheless, the companies must be credited, during the later stages of the investigation at any rate, with having shown a spirit of unreserved coöperation in endeavoring to work out with representatives of the commission and of the shippers practicable reforms that would be satisfactory to the complainants. On some of the points of complaint, the orders of the commission were but formal promulgations of adjustments reached by committees representing these three interests.

to the prepayment was due to some mistake by an employee in the course of the shipment's transit from the consignor to the consignee. The commission's remedy for this complaint is to require that every package shall be labelled, either prepaid or collect, using different colored labels for each case. If, then, a package arrives unlabelled, or without other evidence as to payment of the charges, no assumption can be made as to whether they were paid or not. The doubt must be resolved in favor of the consignee by delivering the package without charge. The company must then undertake to determine whether the charges were paid or not; and, if not, it, instead of the shipper or consignee, must prove the fact and recover the charge.

2. *Overcharges and undercharges.* The overcharging of some shipments and the undercharging of others appear to have been the joint product of obscurity in the method of stating rates and charges, especially in the case of through shipments handled by two or more companies, and of the pressure and speed under which most of the billing has to be done. It was difficult for agents to ascertain, with accuracy, just what rates applied to all points; and especially just what combination of local rates should enter into the through rate when more than one company was to be used. The remedy devised by the commission for these sources of complaint is in part a unified and simplified scheme for stating rates, which will be described presently, and in part a ruling designed to secure a prompt revision of charges on prepaid shipments before the package leaves the point of origin and on collect shipments before the collection is actually made.

3. *Circuitous routing of shipments.* In order to make its proportion of through charges as large as possible, the receiving company often sent shipments over circuitous routes that would give it the largest proportionate haul, when more direct and expeditious routes were open to it. In many cases the grievance on account of the prolonged time for transit has been aggravated by the imposition of greater charges than would have resulted over the shorter route. The commission's remedy for this cause of complaint is a ruling that the express companies shall establish and jointly publish through routes as direct and expeditious as possible, with fixed rates, between all the principal points of the country.

4. *Free delivery limits.* The express companies do not deliver packages in the smaller towns, or in the large towns and the cities

beyond certain limits, except for an additional fee. It was complained that the free delivery service was unreasonably restricted and that its limits were not regularly ascertainable by consignors previous to shipment. To meet this complaint the commission directed the companies to publish a joint general directory of all express offices in the United States in which would be shown whether free delivery is made at all, and, if so, within what limits.

5. *Unreasonable qualifications in the receipt.* The companies are required by law to give a receipt for every package received by them for transportation. It was complained by many shippers that these receipts are "so craftily worded as improperly to limit the rights of the shippers thereunder and to discourage the presentation of claims by shippers whose shipments have been lost or damaged"; and that the liability for loss or damage was unreasonably limited to \$50 per shipment, unless an additional fee was paid for the additional liability. The commission thought it best, for the time being, to let the \$50 limitation remain in the receipt, but has been cooperating with a committee representing the shippers and the companies in framing a new receipt designed to obviate the criticisms without exposing the companies to unreasonable liabilities.

6. *Delays in the settlement of claims for loss and damage.* A very frequent subject of complaint has been that the settlement of claims for loss and damage is unnecessarily delayed and impeded so as to discourage shippers from presenting claims. To meet these complaints, the commission ordered that "in the event of the non-delivery or loss or destruction of a shipment, a notice shall immediately be mailed by the agent of carrier at destination to both the consignor and consignee, if known; and in the event of a claim being made in writing the company shall immediately acknowledge its receipt and shall, within six months of the date of filing such claim, notify the claimant in writing of the disposition made thereof."

7. *Excessive insurance charges on shipments valued in excess of \$50.* If the value declared by the shipper was more than \$50, an insurance fee for the additional liability was charged varying from ten cents per \$100 of additional liability to twenty cents per \$100, according to the distance the shipment was carried. It was complained by shippers that these charges for the insurance of express shipments were unreasonably high in comparison with charges made by independent agencies. On the basis of the

practice in European countries, as well as that of private insurers in the United States, the commission ordered that the charges for liability in excess of \$50 be uniform at the rate of ten cents per \$100 regardless of the distance carried.

8. *Classification of express matter.* This is considered in the section with rates and charges.

9. *Delay in the return of C. O. D. collections to consignors.* In order to remove this sort of complaint as far as possible, the commission provided that collections of C. O. D. shipments be returned by the receiving agent who delivers the shipment within 24 hours after delivery, and that, if the return is not made directly to the consignor but to the agent at point of origin, the latter agent shall settle with the shipper within 24 hours after receipt of the return from the agent at destination. Further, if the return is delayed by the delinquency of either agent, settlement shall be made with the shipper promptly on his presentation of proof of delivery and failure to make return, instead of withholding the payment until the company can locate the responsibility for the delay.

10. *Method of stating rates.* The basis of all express charges, except for a very small proportion of traffic under certain special classes, is the rate per 100 pounds. Between every two points is fixed a rate per 100 pounds, which varies, of course, mainly with the distance between the points. There are some 35,000 express offices in the United States. A statement of the rates from each one of these offices to each other office would require over 600,000,000 rates. But each agent needs to be able to quote at most only the rates from his own office to each of the others. If there were exactly 35,000 offices, he would need to have only 34,999 rates at his command. In practice, he actually deals with a very much smaller number. In all the larger cities, from which far the greater part of the traffic originates, the charges are assessed by bill clerks who are specialized for particular territories. They soon commit to memory the rates and charges which are usually required. Only in the case of shipments to less usual points and in the case of shipments from smaller towns is it necessary to consult a rate schedule. But the rate sheets of the companies do not permit the charges in even this minor number of cases to be ascertained with promptness and accuracy. This is due mainly to the fact that the companies neglect to prepare ready-to-quote through rates in all cases over

the lines of other companies. In ascertaining a through rate the agents are liable to make different combinations of the constituent local rates or charges and thus impose an overcharge or an undercharge. This uncertain and incomplete method of stating rates has thus been a frequent cause of complaint by shippers.

This, however, does not quite exhaust the matter of stating charges. At the present time, in the case of the most important class of traffic, known as general merchandise, the specific charges on packages weighing less than 100 pounds are higher than would be imposed if they were computed in strict accordance with 100-pound rates. The rate per 100 pounds is regarded as a base on which is constructed a scale of charges that decrease with the weight, but in such a way as to make the charge per pound increase as the weight of the package decreases. Stated in the converse manner, if the charge for the lightest package be taken as the starting point, the graduated charges increase with an increase in the weight, but less than in proportion to the increase in weight. This relation continues until the charge becomes the same as if it were computed strictly on the basis of the 100-pound rate. In all cases where the base rate is less than \$2 per hundred, this does not occur until the weight of 100 pounds is reached. But when the base rate is \$2 or over, it occurs when the weight of 50 pounds is reached.

There are in reality a number of different graduated scales which would apply to the different base rates per 100 pounds. But, for the sake of simplicity, each scale of graduated charges is applied to all the base rates within certain limits. Thus, the same scale applies to all base rates of 40 cents per 100 or less; the next higher scale to all base rates over 40 cents but not over 50 cents; the next scale to all rates over 50 cents but not over 60 cents; and so forth. In all there are 54 of these scales, comprising what is known as the "graduate table." The importance of the charges prescribed by the graduate table is seen in the probability that over half of the whole number of pieces carried by express companies are assessed charges in accordance with the graduate table.

It will now be seen that, when an agent is required to fix the charge upon a package of merchandise offered for shipment, he must first ascertain the rate per 100 pounds for that class of traffic to the point of destination; and that he must then consult the graduate table to ascertain the charge under that base

rate for a package of the given weight. The application of the graduate table, once the base rate per 100 pounds is fixed upon, is ordinarily not attended with inaccuracy. But the graduate charge quoted by an agent is no more reliable than the base rate on which it rests. The uncertainty inherent in the present method of stating rates is the cause of frequent irregularities that are equivalent to discrimination.

To remove this source of complaint, the commission has adopted a scheme for stating rates, not from point to point, but from one territorial group of points to another territorial group. The rate is to be the same from all points in any one territorial group to all points in any other selected group. This greatly reduces the number of entries necessary in a rate book to prescribe the rates. To establish these territorial groups the country will be divided into sections called "blocks," each comprising the area within one degree of longitude and one degree of latitude. For the purpose of stating the rates, these blocks are numbered in series beginning at the extreme northwest boundary of the state of Washington with the number 101. The blocks in this tier are numbered consecutively so far as they lie within the United States:

The second tier of blocks begins with number 201, located directly under No. 101. Each block and each tier is numbered consecutively and falls directly under the same numbered block in the first tier. Thus the tier in which each block is located is indicated by the number of hundreds with which it is initialed, and the row in which it is located is indicated by the number of tens with which it terminates. Thus No. 1724 is in the seventeenth tier and the twenty-fourth row.⁶

The number of these blocks in which there are express offices is 830. The greatest number of rates that an agent will ever need to have at his command will thus be 829, as compared with about 35,000 at the present time. Every office in each block will then be supplied with a table, such as can be printed on a single sheet of paper, showing the rate from any of the offices in that block to the offices in any of the other 829 blocks. In addition to this table, the agent will be supplied with a directory of all the express offices in the country, which will show opposite the name of each office the number of the block in which it is located.

For the great volume of merchandise packages weighing less than 100 pounds, the commission has adopted the principle of

⁶ *Interstate Commerce Commission Reports*, 24, pp. 413-414.

the graduate scale. It has prepared a number of scales, applicable to different distances, each scale showing the charges on different packages graded according to weight up to 100 pounds. In quoting the charge for any package of merchandise, the procedure would be, first, to ascertain from the directory of offices the number of the block in which the point of destination is located; then to find, from the table of blocks, which scale of charges is applicable to shipments to the block in question; then to find, from the ascertained scale of charges, the particular charge for the weight of the shipment to be sent. In this procedure, every point of inquiry concerning any charge would have a precise answer, quickly ascertainable from printed forms.

The general plan of this method of stating charges by blocks and scales would be accepted by the express companies. They could adjust their present 100-pound rates so as to be uniform to all points in the same block; and their present graduate scale of charges would be applied, as now, to smaller packages under those rates just as the scales proposed by the commission would be applied. The companies urge, however, that the particular details of the plan as worked out by the commission would greatly complicate instead of simplify the rate schedules. They allege that instead of 1,281 distinct charges now existing there would be 28,940 distinct charges. But these features of the commission's proposal are not essential to its plan for stating rates. They rather concern the refinement that should be observed in making rates for different weights and distances.

Criticisms concerning Rates and Charges

The express companies have conceded the several remedial proposals of the Interstate Commerce Commission above noted. Indeed they have coöperated in working out many of the more difficult of those proposals. But, in the matter of reforming the classification, so far as changes may affect the present rates and charges, and in the matter of the rates and charges themselves, the companies stoutly contend that the tentative proposals of the commission are impossible of application. As the question of rates and charges is the most important one in the whole controversy, it will deserve more extended discussion than the objects of complaint just under review.

At this time, attention will be confined to criticisms that have been made against present rates and charges. How far present rates and charges can be altered will be more conveniently con-

sidered in connection with the response of the companies to the specific rate schedules proposed by the commission. That discussion, as has been noted, must wait until the argument in the case has been concluded.

Classification of express matter. The classification of express matter for the application of rates is simple enough in its general outline, but rather complex in its details. The principal class is that of "merchandise." This includes all the ordinary articles of traffic. It represents about two thirds of the total number of pieces of all kinds; something more than half of the total weight of all shipments; and about three fourths of the total revenues from transportation. Next to the merchandise class is what is known by the obscure term of "general specials." This class includes most articles of a perishable nature, such as bread, butter, fish, oysters, fresh fruits and berries, fresh meat, poultry, vegetables, and the like. Far the greater part of general special shipments are of this character. About 20 per cent of the total number of pieces and about 35 or 40 per cent of the total weight of all traffic is comprised in the general special class. But less than 20 per cent of the total revenue from transportation is received from this class. It will be noticed by comparing these percentages with those given for merchandise that the general special shipments weigh about four times as much per piece and yield considerably less than half as much revenue per pound as merchandise. A special class is made of beer and various temperance beverages and mineral waters. Two other minor classes remain, which are known as section D and section E matter. These articles are carried on flat rates for any distance at charges

¹ These and other special classes enjoying special rates lower than the regular merchandise rates grew up partly to meet the demand for a sort of commodity rate for shipments of large quantities of perishable goods or to meet competition for the business of shippers of large quantities of particular kinds of goods. In time, this competition between express companies, as in the case of railroad companies, gave way to a growing understanding between the companies, under which increasing uniformity in rates was developed. This was soon accompanied by the working out of a uniform classification of commodities adopted by all the companies. Eventually those special rates which were "general," that is, common to all companies, were established on a permanent and more uniform basis; and the commodities that enjoyed these rates became known as "general specials." Other special rates, given as special favors to large shippers of particular kinds of goods, became crystallized, under the pressure from those shippers for a continuation of their privileges, in various forms of minor special classes.

designed to compete with the third-class mail and the former fourth-class mail postage rates. The distinguishing characteristic of these classes is not the nature of the article, but certain special conditions of shipment that were originally prescribed to fit the practice and needs of shippers in whose interest the classes were formed. Thus the value must not exceed \$10, the charge must be prepaid, the contents of the package must be indicated on the outside wrapping, and the package must not be sealed. The rates, under these conditions, are based on the weight in ounces and are appreciably lower than the ordinary merchandise charges for small packages of not over two or four pounds.

Shippers complain that this classification is illogical, discriminatory, and obscure. They assert that the merchandise class contains many unwarranted exceptions that bear, on the one hand, double, treble, and even four and five times the regular merchandise rate, or, on the other hand, one half the merchandise rate, or some other reduction from the regular merchandise charges. The general special class has special rates within itself, such as those for berries in crates, eggs in cases, cheese between certain points, and live poultry between certain territories when the merchandise rate is less than a certain amount. It is pointed out that section D and E classes rest on distinctions that make the same articles subject to regular merchandise rates when shipped under certain conditions and subject to the special section rates when shipped under other conditions, and that these conditions are not usually made known except to shippers whose business is sizable enough to invite special solicitation. They complain, further, that the form in which the classification is printed obscures the classification itself and operates further to discriminate against those not intimately familiar with its provisions, and even causes agents to quote unwittingly different rates to different persons or even to the same person at different times. This is due largely to the want of a consistent alphabetical arrangement of the articles in the classification.⁸

The express companies admit that the classification is imperfect,

⁸ For example, one finds aeroplanes, baskets, books, ice cream, newspapers, saws, stoves, and other articles specified in alphabetical order; but dogs appear only under "animals," bread appears only under "general specials," chairs only under "furniture," show cases only under "glass," sheep only under "live stock," pianos only under "musical instruments," bicycles, poles, and shafts for carriages, and children's carriages appear only under "vehicles." And in most of such cases there are no cross references.

but contend that it is the unavoidable resultant of the numerous conflicting forces that have converged upon the question of rates. Still, whatever the influence of motives and purposes may have been, the Interstate Commerce Commission has truly described its present effect as providing "a number of open, yet obscure, avenues by which the initiated may secure lower rates than the uninitiated."

To meet these complaints, the Interstate Commerce Commission proposes that, instead of the present form of classification, a new one be devised with the ordinary merchandise rates as a basis. That is, recognizing the propriety of imposing higher than merchandise rates on some articles and lower than merchandise rates on others, the commission would group all articles according to the percentage of the basic merchandise rate that they bear. The classification would then show in separate groups all articles subject to the merchandise rate, and all articles subject to any given percentage of that rate, higher or lower. A further requirement of the commission is that all articles shall be arranged in a list alphabetically with an indication, after each article, of the class to which it belongs, expressed in terms of a percentage of the merchandise rate.

The express companies have consented to this general scheme for a classification, but have not agreed to any specific classification of the various commodities carried by them, because that involves a change in their established charges; and the question of rates and charges is the heart of the whole issue between the shippers and the companies. The adoption of this plan of classification must wait until the question of rates and charges is settled.

11. *Rates and charges.* Some criticisms of express rates and charges are directed at those charges considered as a whole; others distinguish between the different forms of charges and consider each separately. Of the former sort is an argument based on comparisons with charges in other countries that has been given wide circulation by Congressman David J. Lewis of Maryland.⁹ He found the average ratio between the express

⁹Congressman Lewis has attempted a careful analysis and criticism of the express business in private hands, and has worked out a proposal for the government acquisition of the business. His ideas were first presented in a speech in Congress on June 8, 1911. It was later given at the second hearings before the House Committee on Post Office on the parcel post bills and again at the hearings of the Senate Committee on Post Offices on the same subject. The latter testimony has been separately printed as *Senate Document*

charges and the freight charges in a number of different countries, including those of Europe, and compared it with the similar ratio for the United States. The ratio for foreign countries varied from 3.2 to 1 up to 9.3 to 1, and averaged for all these countries, according to Congressman Lewis' computation, 5.23 to 1. The ratio in the United States he found to be 14.53 to 1. Believing that "no necessary economic cause is known which justifies a substantially higher proportion or ratio of the express to the freight charges here as compared with other countries," he drew the conclusion from this comparison of ratios that there is required "no further statement . . . to show that the charges of American express companies are prohibitively excessive, and such as to disqualify this service as a national economic agency."¹⁰

In this argument Congressman Lewis has succumbed to the hazard in all such arguments based on comparisons. He makes no allowance for differences in conditions that affect this ratio, specifically saying that there is "no necessary economic cause" for any substantial difference between the ratio in the United States and that in the other countries. On this account, his argument that express rates are excessive is inconclusive. Some of these differences may be noted.

The freight traffic in the United States is handled on a wholesale plan. No weight less than 100 pounds is recognized in the freight charges. Large quantities of agricultural products and raw materials are hauled long distances in carload and train-load shipments. In the other countries, the freight service is organized for more frequent and speedy transportation of small shipments. The average freight charge in the United States is, therefore, much lower than it would be if the freight service were of the same character as that in the other countries considered. This difference would of itself cause a very much higher ratio of express charges to freight charges in the United States.

Again, it was thoroughly shown in the testimony before the Interstate Commerce Commission that the express service in all the important countries which Congressman Lewis compares with the United States is hardly more than a fast freight service.

379, of the 62d Congress, 2d Session. All references herein will be made to this reprint. The argument cited is found on pages 11 and 12.

¹⁰ Lewis, *Testimony before Senate Committee*, p. 12.

The average charge for such a service must show a much lower ratio to freight charges than it would if the service were comparable to that in the United States.

Further, the average express charge in the United States is affected by the fact that, in the express traffic here, is included all the small-parcel business which, in the other countries, moves not by express but by parcel post. The charges on these small packages, both in the United States and in the other countries, are higher in proportion to weight than the charges on the heavier shipments that go by express. The packages of 11 pounds or less carried by express companies in the United States have comprised about 5 or 6 per cent¹¹ of the aggregate weight of all express matter, and probably only about 7 or 8 per cent¹¹ of the aggregate ton mileage, while they yield about 30 per cent¹¹ of the aggregate revenue from transportation. If the present revenue from express matter *over* 11 pounds in weight be alone considered, the ratio of express charges to freight charges in the United States would be reduced from 14.53 to 1, as found by Congressman Lewis, to 12.1 to 1.¹²

One further difference is that the charges in the United States cover the collection and delivery service, while in the other countries they do not, except in Belgium which performs a delivery service. Congressman Lewis attempted to allow for this difference, but his allowance is equal only to the present expenses of express companies for the maintenance of equipment in horses and vehicles and in stable equipment and the running expenses for stable and wagon employees and stable supplies. Clearly, this is not the same as the reduction that would result in the total cost of the service if the business were entirely reorganized on a mere station to station basis. His allowance is too small to represent this difference.

When all these differences in conditions are taken into account, it will be seen that the ratio between express charges and freight charges here must of necessity be considerably higher than the similar ratios in the other countries considered. No conclusion

¹¹ These percentages were carefully worked out from data on the character of the express traffic given in the *First Annual Report of the Interstate Commerce Commission on the Statistics of Express Companies*, page 18, and in exhibits by the Interstate Commerce Commission in the investigation into the express business. The method of arriving at these and other estimates concerning the traffic in packages of 11 pounds or less is too long to be reproduced here.

¹² See note 11 above.

of unreasonableness can be drawn from the fact that it is higher until allowance has been made for the effect of these differences in conditions on the ratio between the charges. Such an allowance cannot be made with sufficient accuracy to permit the use of Congressman Lewis' argument by comparison. For the differences cannot, in some cases, be expressed in statistical quantities at all, and in other cases cannot be so expressed without considerable dependence upon the judgment. However, it is probable that if allowance could be made for them, the ratio, between express and freight charges would be reduced to 8 to 1 or less. So that the excess, if any, over the ratio in the other countries would be too small to be of any conclusive significance in an argument of the sort used by Congressman Lewis.

Another criticism of the express rates as a whole is based on the ratio of the earnings from those rates to the investment by the companies. As usually presented, the book record of the cost of real property and equipment reported to the Interstate Commerce Commission is taken as the measure of the investment. With this is compared the operating income, the amount remaining from gross operating revenue after deducting all operating expenses and taxes. These comparisons for the years since reports have been made to the Interstate Commerce Commission are shown in the accompanying table. It is urged that this high rate of return is proof that express charges are far above reasonable amounts:

Per cent operating income is of cost of real property and equipment of express companies for the years 1911-1912

Year	Cost of real property and equipment	Operating income	Per cent operating income is of cost of property
1909	\$22,313,575	\$11,387,489	51.03
1910	25,325,668	13,392,080	52.88
1911	27,153,869	10,326,352	38.17
1912	30,264,772	6,812,544	22.51

In addition to this is cited the fact that the history of the business shows that the greater part of the cost of real property and equipment has been provided out of the earnings.

To this criticism there are several replies. One urges that the book record of cost of real property and equipment is not the measure of the "fair value" on which the companies may rightly earn returns. The whole question of what constitutes a fair value for rate purposes is unsettled. But, whatever the Supreme Court may eventually recognize as the legal standard in that matter, it has already indicated that the cost of the various items of physical property is not alone the measure of the fair value on which earnings may justly be made. Therefore, the ratio of net income to this cost of real property and equipment does not indicate the return on a fair value and is thus without significance as to the reasonableness of the aggregate charges.

This reply can hardly dispose of the preceding argument, because it does no more than raise a question concerning the basis of reasonableness in rates. Actual cost of tangible property is but an extreme form of the cost basis for testing the reasonableness of earnings. Even if the presumption is now established against that particular form, the question of just what constitutes a fair basis for earnings is so undetermined that it can no more be conclusively denied that some form of that basis will be approved than it can be conclusively affirmed. And, on any form of the cost basis, earnings of express companies will appear as a high rate of return. This reply, therefore, while enveloping the above argument in an atmosphere of inconclusiveness, does not satisfy those who approach the matter from the point of view of cost, which is so much emphasized at the present time.

Another reply to the argument based on actual cost of property is that the investment basis is wholly inapplicable; and that for several reasons. One is that express charges must, in the interest of an efficient passenger service by the railways, be high enough to keep out of the express traffic all but the most urgent business. If the volume of express traffic becomes greater, it would mean the encumbering of passenger trains with additional weight, or the interference with passenger schedules by the addition of more high speed, solid express trains with their demands for right of way, and the consequent delays to the less privileged trains.

As an argument against increasing the volume of express traffic carried on passenger trains this is unanswerable; but, as a defense of charges that produce unusually high rates of return, it is inconclusive. It assumes that all express traffic must

be carried on passenger trains. But there may be room in our transportation system for a development of a service intermediate between freight and express service. If the lowering of charges should produce such an increase in traffic as would have the effects feared, it is quite within consideration that the service could then be profitably differentiated. The old charges could remain for such traffic as required the fast passenger train service, and the lower charges could apply to a slower express, or a fast freight, service for such traffic as requires greater expedition than the freight service gives but does not need as expensive a service as the present express. The railways are developing a fast freight service, but this does not provide for the handling of small packages. There would be some difficulties in the way of such a differentiation of the express traffic because of the presence of both express company and railway in the field of transportation. But they constitute no compelling permanent necessity that express charges be high in order to protect the passenger service.

Another argument against "return on investment" as a test of reasonableness is that express charges, like freight charges, must be severally fixed with a view to the number of conditions, such as ability of traffic to move at all on given rates, value of a particular service to the shipper, market competition, competition of other transportation agencies, effect of charges on established business enterprises, and the like. When the multitude of rates and charges are adjusted to each other in the light of these conditions, then, it is said, if the resulting revenue yields a return on the investment that is unusually large, it is simply an unavoidable incident of the complicated requirements that determine a rate structure.

Unless one is committed absolutely to the distance basis for rate making, something must be conceded to this contention of the express companies. But it is open to serious question whether such considerations as those named, which are urged in defense of variations in freight rates, may be given anywhere near equal application to express rates. Freight transportation is the regular, indispensable means of distributing almost the whole volume of the products of industry and the wares of commerce. Compared with freight, the volume of express traffic amounts to only about one half of one per cent—an almost inconsiderable part of the great movement of goods in which the fortunes of individual

producers and whole communities, with their differentiated competitive or market positions, are closely bound. The greater part of express matter originates with consignors or communities to whom public policy rather requires that equality of rates for equal distances should be the general rule.

By far the strongest argument against fixing charges on the basis of investment is that there is only a very small margin separating operating revenues from operating expenses. This is shown in the following statement of the ratio of operating income to operating revenues for all the companies during the last four years ended, respectively, June 30:¹³

1909 — 16.6 per cent	1911 — 12.6 per cent
1910 — 17.6 " "	1912 — 8.4 " "

From this fact it is argued that charges cannot be reduced so as to yield only a normal return on the cost of the property without so far reducing the margin of profits as to jeopardize the solvency of the companies at the first decline in the volume of their business. Moreover, the possible reduction of charges indicated by this would be but a bagatelle compared with the alleged excess of those charges above reasonable amounts. This is a real difficulty in the way of an appreciable reduction of express charges.

At this point, it will be of interest to note that, if it be true that this small margin of profit constitutes an insuperable obstacle to any reduction of charges, then this proclaims the express business as one in which capital is guaranteed returns in excess of those received from ordinary lines of investment. This will put more arrows in the quiver of those who contend that the present express companies would better be displaced either by government or by railroad absorption of the function performed by them. The defense of the companies against a reduction of their charges thus puts them somewhat between the devil and the deep sea. Criticism can be allayed only by a substantial reduction of their charges. If that cannot be done with safety to the solvency of the companies, then agitation

¹³ Based on annual reports of express companies to the Interstate Commerce Commission. That such a small margin of profit available for interest, dividends, betterments, and surplus represents such a large rate of return on the cost of property used in the business, is due to the fact that the express business does not have to furnish its own transportation agency. The investment required is thus very small for the volume of business handled.

will be strengthened for the elimination of the present companies from the service altogether and the development of this field of transportation by either the government or the railroads. However, it is believed by many persons that this dilemma is not forced upon the companies because, as these persons think, a reduction of charges would produce an increase of traffic with new revenues that would offset the loss of former revenues on account of the reduction of the charges, and because it is believed that there is room for appreciable reduction of operating expenses by reorganizing the present methods of handling packages and accounting for them. The reasonableness of these expectations is considered at length by the companies in their response to the order of the commission. Discussion of them will be deferred until those responses are considered.

The indictment of the express charges is supported not only by these arguments against the charges as a whole, but also by criticism of the charges individually. Any consideration of the question of their reasonableness ought certainly to view them in this respect before reaching a decision. In this view, a distinction should be made between the rates per 100 pounds and the graduated charges for merchandise packages weighing less than 100 pounds.

The 100-pound rates have been determined mainly by adjustments of conflicting needs of traffic, by concessions to differences in the competitive position of communities, and by the pressure of powerful shippers. Consequently, it was an easy matter for the complainants before the commission to point out numerous inconsistencies and discriminations in the 100-pound rates for any given distance. The express companies defend this characteristic of the hundred pound rates as a necessary adjustment of their rate structure to the varying requirements of traffic and market conditions. They appeal to the experience with freight rates for corroboration of the alleged inevitableness of such variations in any schedule of transportation rates that properly adjusts itself to commerce. It has already been pointed out that there is much less ground in public policy for the adaptation of express rates to special conditions than in the case of freight rates. The public will certainly not concede that such discriminatory differences as are found to exist between express 100-pound rates are reasonable.

The 100-pound rates have been criticised as being too high,

also. Without doubt this criticism will lie with a great many of the individual rates. With respect to the general level of these rates, it is not easy to test this complaint. One basis for judgment is the fact that express traffic is a higher class of traffic than even first-class freight, and that, therefore, the express rate ought to be some multiple of the first-class freight rate. Express men have a tradition that express 100-pound rates ought to be about two and a half or three times the first-class freight rates. The commission found that they were probably about three times as high on the average; although there was the widest variation in individual cases, the express rates in some cases being less than the freight rate. What the ratio ought to be is mainly a matter of judgment as to comparative classification. In Germany the rates for the service most nearly like the express service in the United States are twice the first-class freight rate. But this ratio is too low to be applied to the United States on account of differences in conditions already noted when considering Congressman Lewis' comparison of ratios.¹⁴

If one considers either the comparative value of the service received from express and freight respectively, or the comparative class of express and freight traffic, or the comparative character and cost of the service rendered, he will find that the ratio of three to one cannot be set down incontrovertibly as unreasonable. Of course, this ratio is not an absolute test of reasonableness, because it depends upon the reasonableness of the freight rates. The ratio to freight rates is merely one more check upon results determined on other more significant bases.

It may be urged as significant in this connection that it is a common provision in the contracts between express companies and the railways that the express rates shall never be less than one and a half times the first-class freight rate. The deduction drawn is that since this ratio has the sanction of the voluntary assent of the railways and the express companies it indicates the reasonable ratio that ought to prevail. But this provision is put in the contracts, not as an index of the proper relation between all express rates and freight rates, but as a minimum limit to prevent express rates reaching the point where they would attract ordinary freight traffic away from the railway companies to the express companies. This is not, therefore, an indication of what the railways and express companies would agree upon

¹⁴ See above, page 327.

as a fair average ratio between express and freight rates. Being a minimum ratio, it argues that a mutually acceptable average ratio would be higher than one and a half. The Interstate Commerce Commission does not appear to consider the present rates per hundred pounds as markedly excessive. A comparison of about 250 of the commission's proposed charges for packages of 100 pounds between representative points shows that the commission's charges average about 20 per cent less than the present rates. But this is much greater than would be the reduction of aggregate charges on 100-pound pieces, because the present 100-pound rates between points where the traffic is heaviest, are reduced but little, if at all.¹⁵

In preparing their main response to the commissioner's order, the five largest companies found that, if the proposed rates had been applied to the business done on October 23, 1912, the revenue received from traffic in pieces weighing from 51 pounds to 100 pounds and over would have been reduced 7.39 per cent.¹⁶ From additional data in their brief for the argument on April 1, it would appear that the reduction in aggregate revenue of the proposed changes in the rates for 100 pounds would approximate 5 or 6 per cent. This is a much more reliable index of the reduction that would be affected by the commission's order in the charges on the heavier packages that now move on the 100-pound rate.

On the whole it is a fair statement to make that the complaints against the 100-pound rates are far more concerned with the inequalities of those rates and with the excessiveness in individual cases than with their general level.

Much greater discontent has been engendered by the graduated charges on shipments less than 100 pounds in weight, especially on the smaller packages. The reason for this will appear in the fact that, while these 100-pound merchandise rates apply to,

¹⁵Thus the rates from Boston to New York, Boston to Baltimore, New York to Pittsburgh, New York to Baltimore, Pittsburgh to St. Louis, Pittsburgh to Buffalo, Chicago to Boston, and Chicago to Canton, all remain the same as now. The rate from New York to Chicago is reduced from \$2.50 to \$2.40; New York to Logansport from \$2.50 to \$2.30; New York to Canton from \$2.00 to \$1.80; Chicago to Buffalo is raised from \$1.75 to \$1.80; Chicago to Cleveland is reduced from \$1.50 to \$1.40; Chicago to Lincoln, Neb., from \$2.75 to \$2.55; St. Paul to Sioux City from \$1.50 to \$1.40; St. Paul to Chicago from \$2.00 to \$1.90.

¹⁶Response on behalf of the Adams, American, Southern, United States, and Wells Fargo companies, filed Feb. 10, 1913.

roughly, only about one tenth of the total shipments and produce only about one fifth or one fourth of the total charges, the graduated charges are applied to about one half of the shipments and produce over one half of the total charges.

The criticisms of the graduate table are, in the main, three. First, the graduation of the charges according to weight is said to be illogical and arbitrary. There is no uniformity in the relation between the increases in the charge and the increases in the weight. The commission states that the amount by which the graduate charge for any weight exceeds what would be charged under a proportionate application of the base rate per 100 pounds, varies from 2 cents per package to 78 cents per package according to the weight and the base rate.¹⁷ Second, as a result of this lack of uniformity in their graduation, the graduate charges are discriminatory. That is, some packages are subjected to higher charges, in proportion to their weight and to the distance carried, than other packages of the same weight carried the same distance. Third, the charges provided in the graduate table are unnecessarily burdensome on the smaller packages. It is usually conceded by the critics that small packages should bear charges more than proportionate to their weight on the basis of the 100-pound rate. But the complaint is that the excess over a charge strictly proportionate to weight is unreasonably large, and that the charges themselves are unduly heavy for the shipments of low weights. This excess of the charge for small packages is shown in a general way by the fact that the average charge per pound for packages that take graduated charges, averaging in weight about 16 or 17 pounds, is about two and a half to three times the average charge per pound on packages taking straight 100-pound rates, averaging a little under 90 pounds in weight.

This characteristic of the graduated charges is held to be the natural result of the absence of any transportation agency competing with the express companies for the traffic in packages between those of 4 pounds or less, which have been carried in the mail, and those in the neighborhood of 100 pounds and over, which are carried by the railway freight service. Obviously, the alternative of shipping by freight tends to hold the express rates per 100 pounds within a certain distance of the freight rates. On the other hand, the competition of the mail has caused the

¹⁷ *Interstate Commerce Commission Reports*, 24, p. 428.

express companies to establish special rates on certain classes of goods that may be carried in the mail. These are the so-called section D rates and section E rates. Between the small packages of mailable weight and the large packages suitable for freight, the express company has had the field to itself. It would be nothing strange if it adjusted the charges on this intermediate traffic primarily with respect to its own profit.

That the complaints against the graduate scale on this ground are well founded is the firm conviction of the Interstate Commerce Commission. It says:

This scale is unreasonable, discriminatory, and arbitrary. It is the product of years of shrewd manipulation, and has no justification in the minds of the express men themselves. It is the richest example yet brought to our attention of a tariff based exclusively upon what the tariff will bear.

The effect of this scale is to impose an unjustifiable burden upon the small package and thereby destroy the usefulness of the express company in filling the function for which it was provided in that it discourages the movement of small packages and tends to erect the express company into a competitor with the railroad as a carrier of large shipments.¹⁸

The allegations in the impeachment of the graduate table are conceded by many express men with respect to the graduation of the charges and to the consequent discriminatory relation between the charges for different weights and distances; but they deny that there has been any intention to make them unreasonably so or to make them unreasonably burdensome. It is explained that the graduate table was not "made" but "just grew" under the influences of conflicting interests, and hence its present character. It is urged that imperative considerations of simplicity in the rate schedule require the number of different charges to be as few as possible, and that this can be had only by sacrificing uniformity in the relation of charges to weights and distance. It is further urged that the less than 100-pound merchandise traffic constitutes the highest class of the whole express traffic and must, therefore, bear an appreciably larger part of the aggregate charges on all the traffic than its proportion of the total tonnage would impose. In dealing with the criticisms of the graduate table, the commission has proposed a group of "scales" of charges, each scale to be applied to a particular group or zone of distances. Each scale of charges follow a regular gradation from the charge for a 1-pound pack-

¹⁸ *Interstate Commerce Commission Reports*, 24, pp. 427-428.

age to the charge for a 100-pound package. But the rapidity with which the charges increase for packages between 1 pound and 100 pounds is greater in the scales prepared for the longer distances. Thus, in the lowest scale, the charges range only from 21 cents for 1 pound to 55 cents for 100 pounds, while in the highest scale they range from 35 cents to \$15.20. With respect to distance, the commission has so applied the various scales that the charges for a package of any given weight increase slightly less than in proportion to the increase in the distance. The rapidity with which the charges increase with the increase in distance is greater for the heavier packages. Thus, the charges for a 1-pound package range only from 21 cents for the shortest distance to 35 cents for the longest distance, while the charges for a 100-pound package range from 55 cents for the shortest distance to \$15.20 for the longest distance.

These scales and their application to the various distances are based upon a formula¹⁹ that gives a schedule of charges which, with the exception of adjustments of fractional parts of a cent in the results, bear a mathematically ordered relation to weight and distance. On this account all elements of irregularity and arbitrariness in the graduate table are avoided. However, it is strongly urged by the companies²⁰ that this advantage is secured at too great a cost in the simplicity and practicability of the schedule for use by billing clerks in the conditions under which they must work. The total number of charges would be increased from 1281 to 28,940. While each bill clerk ordinarily needs to be familiar with or to consult only a small part of the whole number of possible charges, that part would be greatly increased in number under the scales proposed by the commission. The danger of error in billing, to say nothing of additions to the operating expenses of the companies that lurk in such a multitude of charges raises a fair question whether the commission's series of scales does not overreach itself with respect to the matter of irregularity and arbitrariness in the present graduate table. If an ordered relation of charges to weight and distance is desired, it will be possible

¹⁹The formula on which the commission constructs its schedule is somewhat complex. It is described in the response of the five larger companies of October 8, 1912, and again in the brief for the argument before the commission on April 1, 1913.

²⁰Brief on behalf of the Adams, American, Southern, United States, and Wells Fargo companies for their argument on April 1, 1913.

to secure it in a satisfactory degree without so multiplying the number of the charges.

Whether such mathematically ordered relation of charges to weight and distance is to be desired, will depend upon the recognition that should be given to the plea of the companies that the smaller packages are the only part of the traffic that must be carried at lower rates in order to permit it to move at all. This point in the response of the companies can be better considered with the other matters touching the specific charges proposed by the commission.

This account has described the more important objects of complaint against the rates and practices of express companies that have prevailed heretofore. It has stated the remedial changes, reached in some cases with the coöperation of the companies, that are applicable to the practices and methods of handling the traffic. It has discussed more fully the arguments urged in support of the complaints against the present classification, rates and charges, and has stated the general plan proposed by the Interstate Commerce Commission for dealing with those complaints. There remains to describe and discuss the specific schedule of charges proposed by the commission and the specific criticism of that schedule on the part of express companies and the shippers. This is left for a later article after all parties to the case have been heard on the commission's order.

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